Employment Lands

Retail Report

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Introduction

The retail sector serves an important role in the community. It allows consumers access to a broad variety of goods and services. The retail industry is also important to the economy through the high volume of transactions and the large number of workers employed across the state.

This report provides an analysis on the value of retail building approvals from 2020 ABS data (as at August 2021). This data provides information about retail buildings primarily used in the sale of goods to intermediate and end users including the value of alterations, additions and conversions (worth over $50,000). The data is used as a proxy to provide an estimate of the level of development activity across the retail industry in NSW. It also contains commentary on the demand for retail property given structural changes in the sector, the ongoing impact of COVID-19 and the macroeconomic environment.

Value of Retail Approvals in 2020

Analysis of ABS data shows the value of retail development approvals, including additions and alterations, by district during the 2020 calendar year. Figure 1 shows Greater Sydney has the most retail approvals by value. Figure 2 breaks this down by District, and in terms of LGAs, the City of Sydney had the highest value of approvals (37 per cent of the total), with Blacktown in second (9 per cent). Examples of the approvals contributing to these results is included in Table 1.

Figure 1. Value of Retail approvals in Greater Sydney and Rest of NSW in 2020

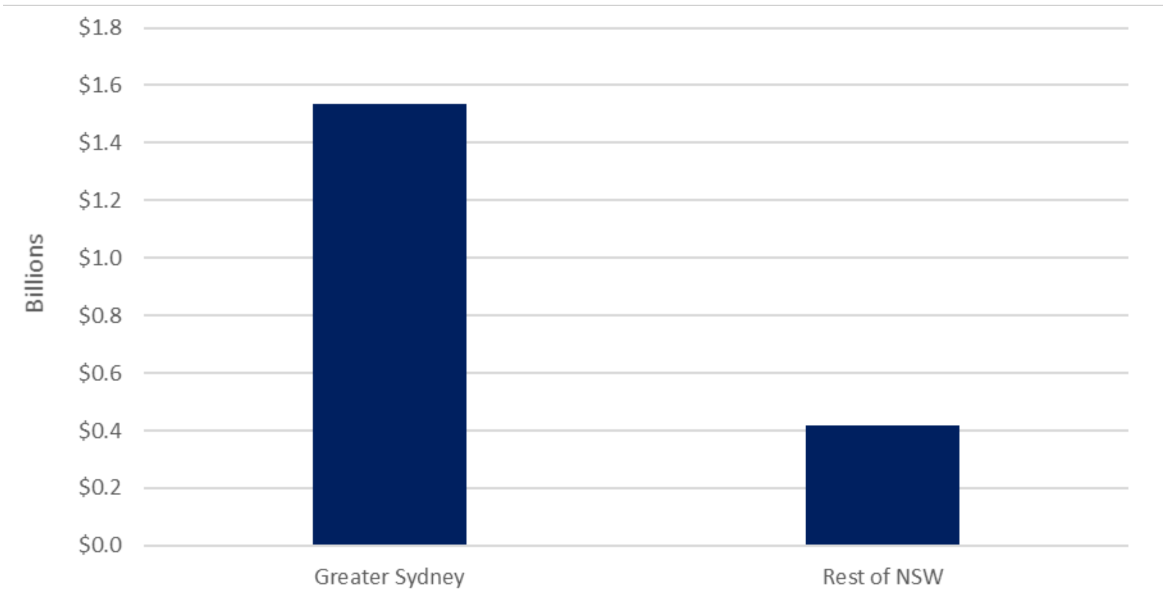


Figure 2. Value of Retail approvals by District in 2020

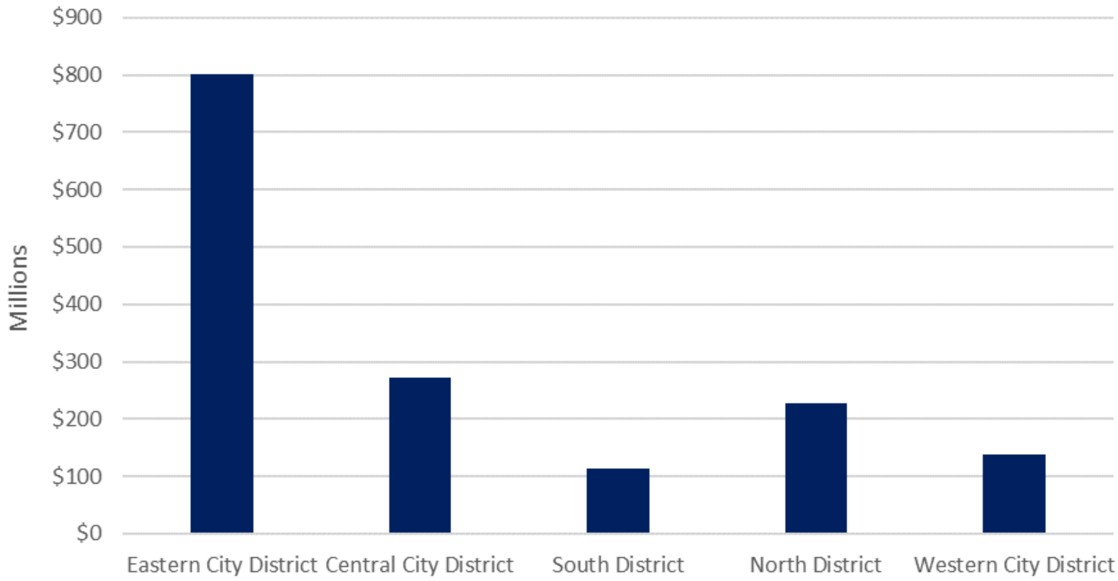


Table 1. Examples of retail approvals

LGA	Suburb	Project	Development application value[1]	Approval date
City of Sydney	Sydney	Dior Store Refurbishment	$10,306,000	01/05/2020
City of Sydney	Sydney	181 Pitt St Alterations and additions	$4,633,000	15/10/2020
Fairfield	Bonnyrigg Heights	Elizabeth Drive commercial & community development	$8,966,000	16/09/2020
Georges River	Hurstville	Woolworths Forest Road	$3,769,600	19/05/2020
Hornsby	Thornleigh	Thornleigh Marketplace – Alterations and additions	$16,422,000	06/08/2020
Penrith	Penrith	Westfield Penrith Shopping Centre – Alterations and additions	$10,702,000	20/03/2020

1 DA value may include non-retail components.

Retail performance overview 2020-2021

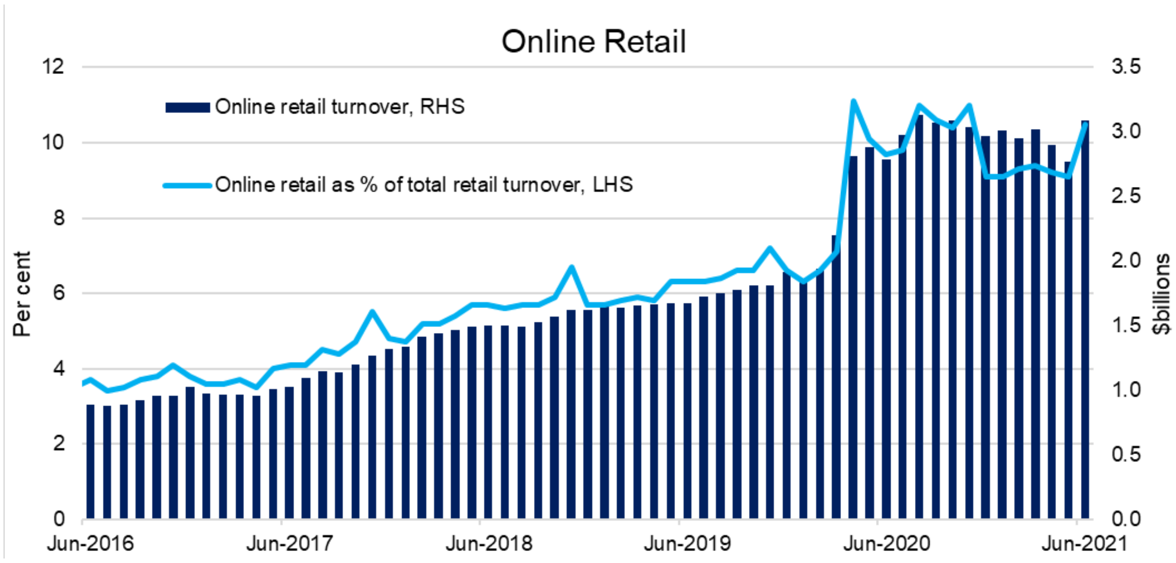
Economic recovery, subsequent Delta waves and the structural shift

At the beginning of 2021, the economic recovery had been stronger than expected. The recovery was underpinned by record low interest rates, prompt fiscal stimulus and a buoyant labour market. Nominal retail turnover rose by 10 per cent in NSW over the 12 months to May 2021. *Cafés restaurants & take-away* and *Clothing & accessories* were the two biggest contributors as consumers were encouraged by loosening restrictions and high savings rates for some households[1]. Household consumption was expected to surpass pre-COVID trends on a per-capita basis, buoyed by continued labour market improvements, additional policy support in the form of income tax cuts and lower precautionary saving[2].

However, the lockdown from late June 2021 saw nominal retail turnover in NSW fall by 9 per cent in July 2021 to be 11 per cent lower than 12 months ago[1]. High-frequency data suggests the decline in spending has been broadly in line with the declines seen in earlier extended lockdowns in 2020. Spending on services fell and there was an increase in food purchases and online activity, although that only partly offset the decline in non-food sales. The experience domestically and internationally suggests that economic activity should recover quickly following easing of restrictions[3].

Prior to COVID-19, bricks and mortar retailers for discretionary goods were facing challenges from long-term structural shifts, including the rise of online shopping and changes in consumer spending patterns from ‘goods’ towards ‘services. This resulted in increasing vacancies and declining rents, putting downward pressure on valuations. The COVID-19 social restrictions and lower discretionary income in the first half of 2020 resulting from the economic downturn increased the headwinds facing the sector, putting further pressure on vacancies, rents and valuations. While these COVID induced headwinds are expected to substantially dissipate following the successful containment of the Delta outbreak and the achievement of targets under the vaccine roll-out program, the long-term structural shift is expected to continue.

Figure 3. Volume of online retail



Source: ABS Retail Trade

Property

The retail property market had experienced a period of recovery following the easing of COVID-19 related restrictions in mid-2020. However, the Delta outbreak and subsequent lockdowns in NSW from mid-2021 saw an end to this recovery. It is expected that with the easing of social restrictions in the fourth quarter of 2021 the retail property market will again experience recovery, although this will be tempered by the ongoing structural changes within the industry and trend towards online shopping and changing consumer behaviour. Rental vacancies are likely to increase further with some department stores and large retailers announcing plans to further reduce the size of their floor space over the next couple of years. This will place further downward pressure on rents and valuations, which have declined by 6 per cent and 15 per cent respectively since early 2019[4].

The outlook is particularly uncertain for regional and sub-regional shopping centres. These centres rely on maintaining a breadth of tenants to sustain high levels of occupancy. Together these centres account for roughly two-thirds of gross lettable area of all shopping centres. In contrast, risks around earnings and profitability in “neighbourhood centres”, are somewhat lower. The anchor tenant in these centres are supermarkets, which have fared better during the pandemic. While vacancy rates in CBD shopping centres are very high, they account for only around 4 per cent of gross lettable area[4].

Investors have started to become wary about the retail sector and yields have softened. The scale of the change to the sector is so large, that when combined with the management effort required, some investors are questioning whether major retail centres can continue to be regarded as “core” assets[5].

References

1. Australian Bureau of Statistics, (2021), Retail trade, Australia, June 2021.
2. NSW Treasury, (2021), NSW Budget 2021-22, June 2021BIS Oxford Economics. (2020). Retail Property: 2020-2030.
3. Reserve Bank of Australia, (2021), Statement on Monetary Policy, August 2021.
4. Reserve Bank of Australia, (2021), Financial Stability Review, April 2021
5. BIS Oxford Economics, (2021_, Retail Property 2021–2031